

MABS-M PROGRAM
Microenterprise Access to Banking Services in Mindanao

End of Pilot Phase Assessment

Submitted by:

Chemonics International Inc.
Davao City, Mindanao, Philippines

November 1998

Under Contract No. 492-C-00-98-00008-00
United States Agency for International Development
Office of Economic Development

MABS-M Program
End of Pilot Phase Assessment, November 1998
Suggested Assessment Criteria and Measures.

Performance Measures. The following results indicators are suggested for use to assess the performance of the MABS-M program at the end of its pilot phase. Successful attainment of these results would be necessary for extending the MABS-M program beyond the pilot year. Expected pilot phase results are documented here so that the MABS-M and the Management Committee share expectations of what will be achieved by the end of the pilot phase. The end of pilot assessment will be done by the MABS-M Management Committee.

1. *Letters of Intent (LOIs) signed by 3-6 pilot banks.* This criteria is objectively measured. Indicator: Signed LOIs. This is an output/milestone.
2. *Participant Bank Agreements (PBA) with accompanying detailed action plans and budgets signed by 3-6 pilot banks.* This criteria is objectively measured. Indicator: Signed agreements. This is an output/milestone.
3. *All PBA local commodity procurement completed.* As outlined in each individual PBA, all relevant commodities for the participating banks will have been procured. This criteria is objectively measured, using the PBA procurement targets for measurement. Indicator: Commodities in place at the banks. This is an output/milestone.
4. *High client satisfaction among participating banks achieved.* As a proxy indicator for the success of MABS-M technical assistance and training, client satisfaction will be measured. This criteria is subjective. In addition to other interview questions, the managing director or president of each participating bank will be asked the following 10 questions by the ManCom pilot phase assessment team. Given the potential absence of objectively measured results at the end of the pilot phase (new microenterprise loans and deposits), it is this subjective assessment which will get at the heart of how well MABS-M is doing in eventually achieving program results. High client satisfaction will have been reached if, in a majority of the participating banks, the evaluation team receives the answer “yes” to at least 8 of the 10 questions.
 - a.) Are you generally satisfied with the MABS-M program and the technical assistance and training it has offered your bank to date?
 - b.) Has your bank and your staff found MABS-M assistance useful?
 - c.) Has the MABS-M team responded to your bank’s needs?
 - d.) Do you think MABS-M is adequately providing you with the microfinance information, methodologies, and systems your bank will need to expand your bank’s services in the microenterprise market?
 - e.) Are you optimistic that your bank will reach some of the results target incentives set out for your bank in your Participant Bank Agreement?

- f.) Based on the MABS-M assistance you have received so far, do you think it possible that you will permanently incorporate microfinance lending and deposit mobilization into your bank's portfolio?
 - g.) Are you still happy your bank is part of the MABS-M pilot phase?
 - h.) Overall, do you believe that MABS-M assistance has been and continues to be valuable to your bank?
 - i.) Regarding the ongoing efforts to mobilize new microenterprise deposits and loans, is MABS-M actively addressing all your current concerns regarding how to put the microfinance program into operation within your bank?
 - j.) Has the MABS-M program adequately addressed your concerns about the risks and challenges involved in microfinance lending enough for you to feel comfortable giving it a try?
5. *Management Committee satisfaction at the program level.* As a proxy indicator for assessing MABS-M program management, flexibility, innovation, and responsiveness, the Management Committee will assess its own satisfaction with the MABS-M program and Chemonics as prime contractor. In addition to other discussions they will hold amongst themselves, the ManCom will ask assess its satisfaction with MABS using the following 5 questions. High satisfaction means a majority of the ManCom answer "Yes" to at least 4 of the following 5 questions:
- a.) **Contractor responsiveness.** Has Chemonics adequately responded to any serious issues with the MABS-M program during its pilot phase? Are you satisfied with their response?
 - b.) **Innovation.** Has MABS-M shown innovation in dealing with program challenges? Has it found innovative ways to introduce microfinance to participating banks?
 - c.) **Management and Administration.** Is the MABS-M team adequately managing its resources? Are you currently confident in the team's administration and management of the program?
 - d.) **Flexibility.** Has the MABS-M team shown flexibility in their approach to dealing with individual banks, specific problems, and various needs and expectations placed on the program?
 - e.) **Confidence in success.** At this time, are you reasonably confident that the MABS-M team will be successful in assisting the participating banks to reach desired results?

6. *Achievement of partial results stipulated in the contract.* It is hoped that pilot banks will have begun mobilizing new microfinance deposits and savings—in line with the MABS-M contract requirements—by the end of pilot phase assessment. Using the monitoring and evaluation system put in place at the program level and within each of the participating banks, MABS-M will report to the Management Committee preliminary results achieved, against a baseline determined in conjunction with the institutional assessment at each bank. Indicators: new microfinance loans and new microfinance depositors. Other indicators will also be reported. This is objectively measured, using pre-approved definitions of qualifying loans and deposits, as well as other pre-approved indicators.

For the purposes of the assessment at the end of the pilot phase, no specific intermediate results targets or results milestones will be set. This pilot phase assessment criteria will be included as a “bonus” measurement. As it is not specifically stipulated as a prerequisite result for the program to continue, any achievement here will be considered positive in nature, and be integrated into the findings of the Management Committee accordingly.

<DATE>

<TITLE AND>

<ADDRESS>>

<OF>>

<PARTICIPATING>>

<BANK>>

Subj: Participation in MABS-M

Dear <<MANAGING DIRECTOR>>:

We are delighted that <<NAME OF PARTICIPATING BANK>> has elected to participate in the MABS-M activity, a USAID-funded effort conducted in conjunction with the RBRDFI. We believe that by lending its ground-tested experience and sound reputation in rural banking in Mindanao, <<NAME OF BANK>> will make a significant contribution to the MABS-M effort. Therefore, we are pleased to confirm our selection of your bank as one of the MABS-M pilot banks.

Please consider this letter an expression of MABS-M's commitment to work closely with you and your bank staff during the pilot phase and the following years. This communication also serves as a letter of intent, indicating our plans to develop a detailed and complete Participating Bank Agreement (PBA) with your bank. This PBA will outline the specific resources that our MABS-M project will commit to your bank, as well the resources your bank will commit to the effort. It will also include a comprehensive action plan covering methodology, training, loan product development, MIS, and monitoring and evaluation.

In order to bring you the resources you most need, and as a starting place for the development of a more formal relationship between MABS-M and your bank, we will need to conduct a detailed institutional analysis of your bank. This analysis will serve as a tool to assess your current operations, management, MIS, microfinance and loan portfolios (if applicable), and microenterprise market. We understand that some of the information we need to gather to best assist your bank is confidential. We wish to reassure you in advance that we will make every effort to guarantee that this information remains confidential.

Members of the MABS-M staff will soon be in touch with you to confirm your commitment to participating as a MABS-M pilot bank, to arrange the timing of the institutional assessment, and to present you with an outline of the basic information we will be gathering in the assessment. Should it be necessary to meet with your board of directors in order to secure approval to participate in the project and provide MABS-M staff with the information needed to complete the institutional diagnostic, we will be pleased to prepare a

brief presentation and respond to any questions board members may have.

We are here to work with you to profitably extend your outreach and operations into the microenterprise sector. Your success will be our success, and only through a collaborative partnership can we reach the goals we will set out together in the Participating Bank Agreement and its action plan. We look forward to this opportunity to work together, to build on your current portfolio and introduce new microenterprise lending products and techniques, and to a successful pilot phase of MABS-M with your bank.

Sincerely,

Alex Buenaventura
Executive Director
RBRDFI

Lief Doerring
Acting Chief of Party
MABS-M

Institutional Assessment Report
Rural Bank of Sto Tomas
Date: July 7-10, 1998
Institutional Overview

Strength

- Strong management
- Supportive board

Summary

The bank was founded 25 years ago, by Mariano Solis who is the husband of the bank president. The stock is held by a few families, with the controlling interest held by the Solis family. The bank is well managed. The president, Mrs. Solis, is a retired commercial banker who nursed the bank from near collapse to a profitable position. The bank is in the commercial center of the town. There are 2 other rural banks there (Davao Cooperative Bank branch and a branch of the Rural Bank of Panabo). In addition, there is a market vendors' cooperative that gathers deposits and lends. There is also an out-of-town rural bank that offers loans to market vendors in the public market. Lending investors from out-of-town employ commission agents who canvass borrowers in the public market and the surrounding commercial establishments. Mrs. Solis feels the bank has established enough goodwill in Sto Tomas to compete with other banks and creditors.

Key Financial Data (million of pesos)

Indicator	1996	1997	4/30/98
Total Assets	42.6	50.7	50.3
Current Assets	8.8	9.3	10.5
Loan Portfolio	33.1	40.8	39.0
PD & IL	6.9	5.3	5.15
Total Liabilities	34.6	40.3	40.1
Deposits	30.0	32.1	33.0
Number of deposit accounts			6,890
Borrowings	1.0	4.2	3.7
Capital	7.9	10.4	10.2
Net Income	1.7	2.9	0.39
Ratios (%)			
Capital/risk assets	24.0	26.5	26.2
Capital/deposits + borrowings	25.2	28.6	27.8
Past-due/loans	21.0	13.0	13.2
Deposits/loans	92.0	78.7	84.6
Return on average capital	22.2	31.7	Na
Current assets/deposits	29.0	29.0	31.8

Outreach

- Outlets: Single outlet. The bank's service area extends to the municipalities of Kapalong and Panabo.
- Staff: 15 employees, plus 2 guards.
- Savers: 6,890 deposit accounts
- Borrowers: 2,935 active borrowers including 130 microenterprise clients.

Microfinance activity

- Three-fourths of the savings accounts have balances with P500 and below; the majority of these accounts are held by salaried persons such as school teachers.
- Ninety seven % of the bank's total accounts are savings accounts; the total value of these accounts amounts to three-fourths of the total bank deposits.
- Sixty five % of the bank's loan accounts have no collateral; the majority of loans are signed by co-makers.
- Fifty % of the microenterprises in Sto Tomas do business with the bank; another 20% could be reached if the bank had enough loan funds.
- The bank can reach 500 more microenterprises provided that, one person is fully dedicated to the effort and additional staff are added as needed.
- A raffle is planned for this year in order to promote deposit services.
- The bank is promoting self-help group savings through linkages with LandBank; one employee is in charge of self-help group activity.

Human Resource Management

Strength

- Stable labor market
- An outstanding incentive program linked to deposits and loan quality

Constraints

- Inadequate microfinance credit staff.
- Under-staffed in the credit area, Mrs Solis and 2 collectors handle all new loans.

Summary

RB Sto Tomas is in the enviable position of being in a stable labor market and as a result they do not have staff turnover. Their average employee has been with the bank for several years. As a result of the long-term tenure, promotion within the bank is limited to openings brought about by death or resignation. Although competitors salaries are not specifically know, based on limited information, the salaries are believed to be competitive. The bank has an incentive program that is comprehensive. Started one year ago, the program pertains to the total bank staff. There are four components, based on two annual six months performance periods, in the program—(1) credit quality of 15 % or better, (2) past-due loans of P 5 million or less, (3) income equal to or better than the budget target, (4) savings grow of P 1.2 million or more. Each component has a value of 25 %. If the bank achieves a score of 100%, each employee receives a one month incentive payment; a 75% score results in an incentive payment of 75% of one month's salary; and a 50% score results in an incentive payment of 50% of one month's salary. Based on the incentive program, in the first semester last year the staff received a bonus of a full month's salary, in the second semester, a bonus of 75% of a full month's pay was received.

Recommendation

It is recommended that MABS assist bank management in the selection and training of a microfinance

designee for the MABS program. It is also recommended that MABS assist bank management in the selection and training of a credit officer back-up for Mrs. Solis.

Management Information Systems

Strength

- Impressive array of custom-designed reports for the Board of Directors, plus Central Bank reports are computer based in spreadsheet designed format.

Constraints

- No back up for MIS operations which are handled by Controller Bong Solis—he is a one man show.

- Parallel manual loan accounting system is very time consuming.

- MicroBanker system will not accommodate adjusting entries for rebate.

Summary

The MIS system consists of loan and savings accounting which are done on MicroBanker. Additionally, loan accounting is also done manually. The need for the parallel manual system results from the fact that the clients still want to see the traditional ledger plus the fact that the MicroBanker system does not allow for the occasional negotiated interest rebates that occur in the course of prepayment. A large and impressive variety of reports are produced by the Comptroller on forms custom designed on Quattro Pro spreadsheets. These include Central Bank reports, Philippine Deposit Insurance Corporation reports, and reports to the Board of Directors. Included in the Directors of Directors report are reports of income and expense which compare the current month to the previous month, the same month the previous year, and to the budget; variances are pointed out and explained. The quality of the MIS reports is outstanding which can be explained by the fact that the Comptroller is a talented CPA, an advanced accounting teacher and financial consultant, as well as an expert in computer matters.

Recommendation

It is recommended that MABS assist management in the designation and training of a staff member to serve as the MIS back-up. It is recommended that MicroBanker personnel assist in the modification of the program so that interest rebates can be booked. It is recommended that with the modification of MicroBanker, that the manual loan accounting system be phased-out as soon as possible.

Internal Control Systems

Strength

- New Compliance Officer also serves as Internal Auditor

Summary

As a small bank, the bank does not have a dedicated Internal Control Officer. They do have external auditors as well as a compliance officer as required by Central Bank. (Insert the text about the compliance officer.) Over the past dozen years, the bank has experienced cases involving fraud on three different occasions. Internal controls system designed to minimum the opportunity for fraud are in place and standards for sound banking practices are in place. The standard MicroBanker manual is used by the banker as a reference. Manual need to be developed for operations, lending, and human resources. Because of the long-term tenure of the employees, the bank operations have not been hampered by a lack of the manuals.

Recommendation

None.

Strategic Planning

Strength

- The microfinance objective of P 1.2 million savings growth each quarter is a component of the staff salary performance incentive program.

Constraint

- The staff is not included in the planning activity.
- There is no objective for loan growth.

Summary

Strategic planning begin in 1997 with the development of a mission and vision statement, a strength and weaknesses inventory, and the identification of bank objectives. The most practical aspect of the planning function are the objectives which are the basis of the employee salary performance incentive program. These objectives award perform for a credit quality standard of less than 15% in past-due loans, a total past-due loan amount not to exceed P 5. 0 million, a quarterly savings growth target of P 1.2 million, and bank income in an amount equal to or greater than the budgeted amount.

Recommendation

MABS staff should conduct a planning retreat for the bank staff and planning should be made a routine part of bank operations. Loan growth targeting should be instituted just as savings deposit growth is now done. The loan growth target should be included as a part of the staff salary incentive program.

Financial Services

Constraints

- Decreased profits have resulted from the 1998 P 3.0 million cut back in lending brought about by increased liquidity from 10 to 30% due to concern about the Asian financial crises.
- The drought brought on by El Nino has had an adverse effect on the bank's agricultural portfolio loan repayment.

Summary

The bank offers the traditional rural bank mix of loan and deposit services. The bank does not offer checking accounts as their market area is based on a cash economy. The typical microenterprise client is middle-aged and has been in business for 15+ years. Typically, the client is a home owner and has been a bank borrower for more than five years. A typical borrower is a meat vendor who borrows P 15-25,000 for 120 days with a daily payment that amortizes the loan in full by maturity. The loan does not have collateral, however payment is guaranteed by a co-maker. The interest, calculated at a rate of 25%, plus fees totaling 2.65% , are deducted from the loan proceeds at the time the loan is made. The net proceeds are disbursed by cashiers check which is cashed by the bank. Due to the discount of the interest and the fees, and the daily payment, the yield on the loan is 41%. The bank has a cadre of 130 of this type of client who normally makes a new loan for the same amount as the original loan as soon as the original loan is paid-in-full. There is not a compulsory saving account associated with the loan. New unsecured loans are normally made in one day. Secured loans necessarily require time for appraisal and filing. Renewal loans are processed immediately. Loan pricing has not changed for the past five years.

Recommendation

It is recommended that a loan-pricing cost study be conducted by MABS staff in order to evaluate the income and expenses associated with the credit program in order that management can review the loan pricing policy.

Marketing and Outreach

Constraints

- The bank has no marketing program.
- There is no bank activity at the barangay level—the bank is complacent and depends on goodwill.
- There is no back-up for Mrs Solis, who approves all new loans.

Summary

Except for a planned raffle to promote savings accounts, the bank does not have a marketing program. In spite of not having a marketing program the bank is profitable and there is heavy client activity to the extent that in the loan and accounting area, the staff are overloaded. In the absence of marketing, the bank depends on its goodwill to attract and retain customers. A competitor, the Rural Bank of Panabo branch is open seven days a week in an effort to capture market share but the ploy appears to be ineffective and the bank has no plans to follow suit. The activity of other lenders in the market-place indicate that there is a lot of additional business that could be available to the bank if additional credit staff were hired and an aggressive loan campaign were pursued. The successful implementation of the credit side of the MABS program require that marketing of microenterprise loans be instituted.

Recommendation

It is recommended that the MABS staff thoroughly investigate the market potential that has been found at the barangay level and based on the findings that microfinance loan products be developed and implemented. Additionally, the MABS staff should investigate and develop savings mobilization strategies for that same market. As a part of the investigation, it is recommended that permission be sought from Central Bank to do a study in the barangay of the most effective way to collect and transport savings deposits to the bank.

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SIX - MONTH TECHNICAL ASSISTANCE PLAN (October 1998 - March 1999)

Rural Bank of Sto. Tomas

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* Given last September 14-17 and September 18, 1998, respectively.

SIX - MONTH TECHNICAL ASSISTANCE PLAN (October 1998 - March 1999)

Rural Bank of Digos

[illegible]

TASKS & SUB-TASKS	No. of Weeks	OCTOBER				NOVEMBER				DECEMBER				JANUARY				FEBRUARY				MARCH			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
3. Updating of personnel manual	1																								
GOVERNANCE & MANAGEMENT																									
1. Management exposure to best-practice MFIs	1																								
2. Strategic planning workshop	2																								
SPECIAL TRAINING COURSES																									
1. Loan repayment management*	4d																								
2. Cash flow lending & loan pricing*	1d																								
3. Microfinance methodologies	5d																								
4. Microfinance product design and development	5d																								
5. Effective bank marketing strategies	5d																								
6. Staff performance evaluation procedures	5d																								
7. Appraisal of microenterprises	5d																								
8. Bank asset & liability management	5d																								

* Given last September 14-17 and September 18, 1998, respectively.

Rural Bank of Sarangani[illegible]

[illegible]

* Given last September 14-17 and September 18, 1998, respectively.